

null  
Diana T Fritz 05/24/2007 04:36:13 PM From DB/Inbox: Search Results

Cable  
Text:

CONFIDENTIAL

SIPDIS  
TELEGRAM

April 07, 2003

To: No Action Addressee  
Action: Unknown  
From: AMEMBASSY ABU DHABI (ABU DHABI 1663 - ROUTINE)  
TAGS: EPET, PGOV, BEXP, ENRG, ECON, EINV  
Captions: None  
Subject: ADGAS ADMITS QATAR UNDERCUTTING LNG MARKET; PLANS  
EXPANSION INSTEAD INTO LPG  
Ref: None

---

C O N F I D E N T I A L ABU DHABI 01663

SIPDIS  
CXABU:  
ACTION: ECON  
INFO: AMB DCM POL P/M  
Laser1:  
INFO: FCS

DISSEMINATION: ECON  
CHARGE: PROG

APPROVED: DCM:RAALBRIGHT  
DRAFTED: ECON:TEWILLIAMS  
CLEARED: ECON:CMC

VZCZCADI117  
RR RUEHC RUEHHH RUEHDE RUCPDOC RHEBAAA  
DE RUEHAD #1663/01 0971300  
ZNY CCCCC ZZH  
R 071300Z APR 03  
FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC 9294  
INFO RUEHHH/OPEC COLLECTIVE  
RUEHDE/AMCONSUL DUBAI 3008  
RUCPDOC/USDOC WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001663

SIPDIS

DEPT FOR NEA/RA, NEA/ARP, INR/EC, EB/IEP, EB/CBA  
USDOE FOR INT'L AFFAIRS -- COBURN, ALSO CALIENDO  
USDOC FOR 4520/ITA/IEP/ONE  
USDOC FOR 4530/ITA/MAC/ONE/DGUGLIELMI  
4500/ITA/MAC/DAS/WILLIAMSON  
3131/CS/OIO/ANESA

E.O. 12958: DECL 04/07/08  
TAGS: [EPET](#) [PGOV](#) [BEXP](#) [ENRG](#) [ECON](#) [EINV](#) [TC](#)  
SUBJECT: ADGAS ADMITS QATAR UNDERCUTTING LNG MARKET; PLANS  
EXPANSION INSTEAD INTO LPG

1. (U) Classified by DCM Richard A. Albright for reasons  
1.5 (B) and (D).

ABU DHABI CONCEDES LNG MARKET TO QATAR  
-----

12. (C) The managing director of the Abu Dhabi Gas Liquification Company (ADGAS), Hassan Al-Marzooki, told Econchief April 2 that his firm is considering a major expansion into the Liquid Petroleum Gas (LPG) business. ADGAS, which currently operates three Liquified Natural Gas (LNG) trains at Abu Dhabi Emirate's Das Island, is finding that competition from Qatar is squeezing margins in the LNG business. "The Qataris are desperate for investment and production, so they are willing to take very cheap prices," Al-Marzooki lamented. Despite excellent working relationships with its primary LNG customer -- the Tokyo Electric Power Company (TEPCO, which is also a major equity stakeholder in ADGAS) -- ADGAS still must renegotiate its sales contract every six years. ADGAS has about 18 months to run on the existing contract, and is very concerned that increased competition from Qatar (and to a lesser degree from Iran) will result in sharply lower prices. ADGAS has paid off its sunk costs (the first LNG train was installed in the 1970s), but LNG plants require extensive maintenance, which is costly. "We will still have a good business," Al-Marzooki admitted, "but it is clear that LNG is no longer a growth business for us."

#### THE FUTURE LIES IN LPG

13. (C) The ADGAS official said his firm is currently considering a major expansion into the LPG field. ADGAS currently produces about 1.5 million tons per year of LPG derived from the associated gasses resulting from oil production by the Abu Dhabi National Oil Company (ADNOC). ADGAS shareholders are now contemplating investing several hundred million USD into effectively doubling that output. While no final decisions have yet been made, the venture looks highly promising, Al-Marzooki noted, and the LPG market is stable and attractive. Expanding LPG production would also dovetail nicely with ADNOC's ongoing projects to increase sustainable oil production capacity, the ADGAS official noted. One of the current major constraints on additional oil production is how to dispose of the extra associated gas. GASCO, Abu Dhabi Emirate's other gas production company, has limited surge capacity -- which is the primary constraint on extra oil production. The UAE does not want to flare gas, so currently must limit oil production to that capacity of associated gas which can either be re-injected or processed. This oil production bottleneck is partially being addressed through the expansion of condensate processing by GASCO (via OGD-3, the third phase of GASCO's Onshore Gas Development scheme), and ADGAS would take its feed for the LPG plant directly from GASCO, thereby helping extract maximum benefit from the feedstock. Residual dry gas (after removal of sulphur) would mostly be re-injected.

#### COMMENT

14. (C) ADGAS officials had told us a couple of years ago that they were studying the LNG market in order to determine whether it would be worthwhile to make the multi-billion USD investment necessary to add a fourth LNG train at Das island. It appears that, having looked at the rapid development (and razor-thin margins) of the Qatari LNG sector, ADGAS has decided to let discretion be the better part of valor. Abu Dhabi's associated gas, quite simply, is not as economically attractive to develop for LNG purposes as Qatar's huge non-associated deposits. LPG, which can be used either as a fuel or a petrochemical feedstock, represents a much more attractive (and less hotly contested) market for Abu Dhabi. Since Abu Dhabi's aging oil fields are experiencing an increasing Gas-to-Oil Ratio (GOR), the LPG processing facility -- when combined with GASCO's ongoing OGD-3 project -- will help maintain current levels of oil production in the out years, while more immediately removing gas handling bottlenecks that impede any increase in sustainable oil production capacity. With a FEED (front-end engineering and design) contract already awarded, we

would bet that the ADGAS shareholders will shortly give final approval for this venture.

Wahba